

Internal Revenue Service

Department of the Treasury

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Washington, DC 20224

Date 7/6/94

Person to Contact:

Surname

Telephone Number:

Refer Reply to:

Date:

MAY 12 1994

Employer Identification Number:

Key District Office:

Dear Applicant:

We have considered your application for recognition of exemption from federal income tax as an organization described in section 501(c)(6) of the Internal Revenue Code. We have determined that you do not qualify for exemption under that section of the Code. Our reasons for this conclusion and the facts upon which it is based are explained below.

You were incorporated under the laws of [redacted] on [redacted]. Your articles state that your purposes are "[t]o encourage, promote, and foster Civic, Economic, and social activities among its members and the citizens of the [redacted] Area in connection with Community improvements, expansion, education, housing, new business, proper industrial expansion, public safety, tourism, general welfare, and continued efforts toward sound economics and representative forms of government".

You are a membership organization with [redacted] classes of membership, including for-profit and nonprofit businesses in the [redacted] Area, individuals, and seniors over 55 years of age.

You own a building, the [redacted], which is used for your activities and rented to other organizations. A substantial portion of your income is derived from this rental activity. Use of the [redacted] is also donated to local civic and charitable organizations. You have stated that the [redacted] is used as a "community center".

Your by-laws indicate that you hold a monthly general membership meeting. Other activities include the sponsoring of a Fall Festival, a Memorial Day Parade, and a community New Year's Eve party.

You also conduct weekly bingo games. Your state permits licensed bingo operations by "service organizations". You have represented that between [redacted] to [redacted] percent of your time is devoted to operating the bingo games and that an estimated [redacted] percent of your revenues are derived from this activity.

Financial data submitted with your application indicates that, in some years, revenues from bingo represent more than [REDACTED] percent of your income. You also conduct a pulltab operation, but have no estimates of the percentage of income this activity represents.

Your by-laws provide that proceeds from bingo go into a building fund, with such funds going towards purchasing and developing the land for your building and constructing the [REDACTED]. Your also by-laws state that bingo proceeds and [REDACTED] rental proceeds will be used to pay off the mortgage.

In addition to the [REDACTED] rental and bingo activities, your other sources of income derive from operating a concessions stand and from fundraising events. You also receive a small amount of income from membership dues. Your expenses are for occupancy costs, building repairs and maintenance, equipment purchases, fundraising costs, advertising, and miscellaneous administrative costs. Any excess income after expenses goes to maintenance and improvements to the [REDACTED].

Section 501(c)(6) of the Code provides for the exemption from federal income tax of business leagues, chambers of commerce, real-estate boards, or boards of trade, not organized for profit and no part of the net earnings of which inures to the benefit of any private shareholder or individual.

Section 1.501(c)(6)-1 of the Income Tax Regulations provides that a business league is an association of persons having some common business interest, the purpose of which is to promote such common interest and not to engage in a regular business of a kind ordinarily carried on for profit. It is an organization of the same general class as a chamber of commerce or board of trade. Thus, its activities should be directed to the improvement of business conditions of one or more lines of business as distinguished from the performance of particular services for individual persons. An organization whose purpose is to engage in a regular business of a kind ordinarily carried on for profit, even though the business is conducted on a cooperative basis or produces only sufficient income to be self-sustaining, is not a business league.

Rev. Rul. 73-411, 1973-2 C.B. 180, states that, in order to qualify for exemption under section 501(c)(6) of the Code, an organization must be shown to possess at least the essential characteristics of the class of organizations commonly known as business leagues, chambers of commerce, or labor organizations.

The common business interest of a chamber of commerce is usually the general economic welfare of a community. Membership is voluntary and open generally to all business and professional individuals in the community. Its activities must be directed at promoting the common economic interests of all the commercial enterprises in a given trade community.

A section 501(c)(6) organization must be primarily engaged in activities or functions constituting the basis for its exemption. Although you conduct occasional special events for the community, you are primarily engaged in the activity of conducting a bingo and pulltab operation. The activities you currently engage in that constitute those recognized as exempt activities under section 501(c)(6) of the Code, such as your monthly general meetings and community events, are either not ongoing or not lengthy in duration. On the other hand, your activities directly connected with your bingo and pulltab operation are ongoing, extensive, and take up the majority of your time. This is evident from your statement that bingo comprises [REDACTED] to [REDACTED] percent of your time, as well as from the fact that a large portion of your revenues are derived from your bingo operation. Despite the fact that your membership has the characteristics of a chamber of commerce within the meaning of section 501(c)(6), your activities are not primarily directed at promoting the common economic interests of all the commercial enterprises in your community, as described in Rev. Rul. 73-411, supra.

In addition, substantially all of your income derives from bingo and from renting the [REDACTED] to other organizations. In order to qualify for exemption under section 501(c)(6), an organization must demonstrate that it derives meaningful support from membership dues and from activities related to its exempt purpose. Although you obtain a minimal amount of support from membership dues, substantially all of your support derives from bingo and from rents for the use of your [REDACTED]. Such income sources do not constitute membership income within the meaning of section 501(c)(6).

Accordingly, since your activities are not directed to the improvement of business conditions in your community, you are not an organization described in section 501(c)(6) of the Code.

You are required to file federal income tax returns. Since you are a corporation, you must file Form 1120 with the District Director of Internal Revenue for the area in which your principal place of business is located.

Contributions to you are not deductible under section 170 of the Code.

You have the right to protest this ruling if you believe that it is incorrect. To protest, you should submit a statement of your views with a full explanation of your reasoning. This statement, signed by one of your principal officers, must be submitted in duplicate within 30 days from the date of this letter. You also have a right to a conference in this office after your statement is submitted. You must request the conference, if you want one, when you file your protest statement. If you are to be represented by someone who is not one of your principal officers, that person will need to file a proper power of attorney and otherwise qualify under our Conference and Practice Requirements.

If we do not hear from you within 30 days, this ruling will become final and copies of it will be forwarded to the District Director, Cincinnati, Ohio. Thereafter, any questions about your federal income status or the filing of returns should be addressed to that office.

If you decide to protest this proposed ruling, you will expedite our receipt of your communication by placing the following symbols on the envelope as part of our address: CP:E:EO:R:4, BEB, Room 6236. These symbols do not refer to your case but, rather, to its location.

Sincerely yours,

Chief, Exempt Organizations
Rulings Branch 4

cc: DD, Cincinnati
Attn: EO Group